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CAPITAL-BIASED PROVINCIAL TRANSIT SUBSIDIES
ENCOURAGE WASTE OF RESOURCES

TORONTO, August 18, 1982 -- Ontario's transit subsidy program is biased in favour of capital spending and should be changed because it leads to a waste of resources. A study released today by the Ontario Economic Council calls for an overhaul of the subsidy program and says that transit fares should be set to promote economic efficiency and not to get as many riders as possible.

Mark Frankena, an Associate Professor of Economics at the University of Western Ontario, says that by subsidizing the purchase of new vehicles and equipment at higher rates than it subsidizes other transit spending, the province encourages transit firms to cut back on vehicle maintenance and scrap vehicles early. Since December 1972, he says, the province has paid 75 per cent of the cost of purchasing new buses. But if a transit system had opted to maintain existing buses instead of buying new ones to provide the same level of service, the province would have subsidized less than 25 per cent of its increased maintenance costs over the past five years.

*This report reflects the view of the author and not necessarily those of the Ontario Economic Council or the Government of Ontario. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of the authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy.

By subsidizing capital costs, Frankena says, Ontario has encouraged the Toronto Transit Commission and the Metro Toronto government to extend and build new subway and streetcar lines, even when they were less economically efficient than buses. Studies "provide very strong evidence that express bus systems would be more efficient than subways for travel between suburbs and the central business district in urban areas like Toronto," Frankena says. He recommends that no further extensions of the Toronto subway be undertaken "unless they can be justified when compared to buses on economic efficiency grounds."

In opposition to the 1979 recommendations of the Joint Metro/TTC Transit Policy Committee, Frankena says that trying to get as many riders as possible is "not an appropriate objective for urban transit systems because it is likely to lead to fare and service policies which waste resources." It would be more efficient to charge higher fares during peak periods, he says, to charge for transfers, and to vary fares according to the distance travelled.

While admitting that such a complex fare structure might increase the costs of fare collection, Frankena suggests there may be ways around this problem, such as semi-automatic fare collection and perhaps the honour fare collection system used by some European countries. Monthly passes might help too, but more economic analysis of these passes is needed to find out just how efficient they are. Until such studies are done, he says, "other transit systems in Ontario should not introduce monthly passes, unless this is part of a carefully designed demonstration project."

The report, an economic analysis of pricing and subsidy policies for urban roads and urban public transit in Ontario, was designed to show how policy alternatives can be evaluated in economic terms. Frankena uses economic theory and an econometric model to see how different subsidy formulas measure up.

There are strong economic arguments for having transit subsidies, he says. For one thing, there are economies of scale in public transit systems so that as size increases, the system can operate

more efficiently. As well, those who use the roads for trips in private cars don't really have to pay the true cost of doing so because there are no road user charges. If private drivers can use the roads in this way, then people who use public transit should be able to benefit from some kind of subsidy too.

But just because a transit firm receives a subsidy, it doesn't necessarily mean that the most efficient combination of services and fares will result. Transit authorities may use the subsidies to introduce new routes in high-income suburbs where the demand doesn't justify the cost of providing the service, so the end result is a less efficient allocation of resources.

Transit systems started running into trouble when more and more people had cars and the move to the suburbs got under way. While transit use was falling off, there was pressure to provide service in the new subdivisions. Governments stepped in to bail the transit authorities out. But Frankena says "if the provincial government, the municipalities, and the transit authorities had demonstrated less enthusiasm in expanding suburban and commuter transit services, there would have been less expansion of subsidies during the 1970s, less pressure to raise real fares for inner-city riders in the late 1970s, and less reason for concern over how to finance public transit in Ontario during the 1980s.

The study also looks at ways in which road users could be charged to take account of the costs of congestion, pollution and road maintenance, although Frankena says it's unlikely that any scheme to charge road users on this basis "will be politically feasible in Ontario in the foreseeable future." One way of doing it would be to require supplementary licences which would take the form of a windshield sticker that every car going into the downtown area would have to display. The cost of the sticker permit would probably be between \$1.50 and \$3.00 a day, depending on the size of the city.

As well, Frankena suggests "municipal governments should consider imposing parking surcharges on cars arriving at parking locations

in congested areas during the morning peak period." But he is opposed to any special incentives for car pools because he says they would probably divert people away from public transit.

In conclusion, Frankena calls for more research in such areas as the economics of fare collection and he suggests provincially subsidized demonstration projects to try out some of the possible options.

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NOTE: A list of persons to contact and biographical sketches of the authors are attached.

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Mark Frankena is an associate professor of economics at the University of Western Ontario. He received his Ph.D. from the Massachusetts Institute of Technology, in 1971.

Urban Transportation Financing: theory and policy in Ontario, by M.W. Frankena, Ontario Economic Council Research Study, 232 pages, price \$12.50, is available at the following outlets:

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